No. 77-1413

In the Supreme Court of the United States

OCTOBER TERM, 1978

JANE ARONSON,
Petitioner

v.

QUICK POINT PENCIL COMPANY

On Writ of Certiorari to the United States Court of Appeals for the Eighth Circuit

---

BRIEF FOR ERCON, INC., AS AMICUS CURIAE

EDWARD S. IRONS
RICHARD H. STERN
IRONS & SEARS
1801 K Street, N.W.
Washington, D.C. 20006

Attorneys for Amicus Curiae Ercon, Inc.

WILSON - EPES PRINTING CO., INC. - 789-0096 - WASHINGTON, D.C. 20001

INDEX

CITATIONS

Cases: Page

CITATIONS—Continued

Page

CITATIONS—Continued

CITATIONS—Continued

CITATIONS—Continued

In the Supreme Court of the United States

OCTOBER TERM, 1978

No. 77-1413

JANE ARONSON,

Petitioner

v.

QUICK POINT PENCIL COMPANY

On Writ of Certiorari to the United States Court of Appeals for the Eighth Circuit

---

BRIEF FOR ERCON, INC., AS AMICUS CURIAE

INTEREST OF THE AMICUS CURIAE

Ercon, Inc., is a relatively small research and consulting firm, engaged in several technological fields, including that of electrically conductive plastics (used in electronics and other industries). Ercon was founded in 1967 by a small group of scientists and engineers including its President, John E. Ehrreich. Ercon is vitally interested in the future of licensing in the United States for two reasons: (1) Ercon's entire business is research and consulting, including development of proprietary technology for patent, trade secret, or know-how licensing to others; and (2) since 1969 Ercon has been harassed with very costly trade secret and confidential informa-

tion litigation that has seriously interfered with its competitive operations as a patent licensor and threatens its survival. Ercon believes that its future as a viable business organization (because it is both a licensor and also a potential defendant) depends on the existence of a fair and rational state of the law in the trade secrecy field—one aspect of which is a doctrine of preemption that, when appropriate, is effective to discourage frivolous "trade secret" litigation at an early stage before legal expenses impose excessive burdens on the parties.

In particular, and to be quite specific, Ercon's concern in this regard reflects the legal and other expenses attributable to a trade secret/confidential information suit that a former employer of its president brought against it to deprive Ercon of a patent on a valuable invention made by Ercon employees after Ercon began its own research in the conductive plastic field. The cost of this litigation and the loss of business because of the *in terrorem* effect the suit has had on Ercon's clients and potential clients has nearly brought Ercon to the point of having to close its doors and go out of business. Ercon believes (and has alleged in its pleadings) that the suit is a sham and the reason the former employer sued it for alleged misappropriation of trade secrets was to impose such ruinous litigation costs on it as to eliminate it as a patent licensing competitor.

To be sure, one answer to Ercon's problem (offered in the Brief for the United States as Amicus Curiae, p. 27, n. 13) is to tell it to rely on "the option of enforcing the antitrust laws," rather than merely defensively to resist the trade secret suit. This is a hollow promise, as Ercon learned when it attempted to bring such a suit. Given the uncertain and therefore expensive state of the law after such cases as *Vendo Co.* v. *Lektro-Vend Corp.*, 433 U.S. 623 (1977); the expense of proving a dangerous probability of success in a relevant market,

demanded by such decisions as *Acme Precision Products, Inc.* v. *American Alloys Corp.*, 484 F.2d 1237 (8th Cir. 1973) (a case, incidentally, in which the victim of patent fraud did go out of business rather than pay the expense of trying to prove relevant market); and the enormous expense of antitrust discovery—a company like Ercon is better off simply defending the trade secret suit as best it can on the merits. One important aspect of the merits of these suits is whether liability, or at least the relief that the plaintiff seeks, is federally preempted so that the defendant is not obliged to undergo the expense of a plenary trial by battle or ordeal.

Ercon therefore submits this brief, *amicus curiae*, to present the Court with a view from the business scene in which *in terrorem* trade secret suits are filed as anticompetitive weapons. As both a user and a victim of the law of trade secrecy, Ercon hopes for a resolution of this case that will establish legal precedents under which Ercon can continue in business as an effective competitor. Ercon files this brief with the consent of the parties (letters filed with Clerk).

QUESTIONS PRESENTED

1. Whether every industrial or commercial agreement for confidentiality in perpetuity may be enforced under the principle of freedom of contract, without consideration of federal patent and national competition policies.

2. Whether the duration of royalties in a license under a patent application (that does not subsequently mature into a patent) can be perpetual or, instead, must be reasonably related to the head start value of the secret disclosure in the application.

STATEMENT

Petitioner and respondent in 1956 negotiated an agreement (App. 7-9) providing, in pertinent part, as follows:

1. Respondent would "have the exclusive right to make and sell keyholders of the type shown in [petitioner's patent application], Serial No. 542677.

2. Respondent would pay petitioner $750 as an advance—against 5% running royalties "on all keyholders which we make in accordance with the design shown in your application, Serial No. 542677."

3. If no patent was allowed on Application No. 542677, within 5 years, respondent agreed to pay petitioner a 2½% running royalty "as long as you [respondent] continue to sell same."

Respondent then began making the key rings and continues to do so (App. 18, 21). Their current market value appears to be about 40 cents apiece (App. 30), although one competitive version appears to sell for as little as 9 cents (App. 46).

In 1961 the Board of Appeals of the Patent Office finally rejected petitioner's application on the ground of there being no patentable invention (App. 20), whereupon petitioner "abandoned" further efforts to secure a patent. Until then respondent paid 5% royalties; thereafter it paid at the 2½% rate until 1975, when on the advice of counsel it declined to pay further royalties (App. 18, 22). During the nineteen years in which respondent paid royalties, it paid petitioner a total of approximately $200,000 (App. 19).

The record does not contain the patent application (Serial No. 542677) and thus does not expressly disclose what petitioner licensed to respondent or on what respondent agreed to pay petitioner royalties. The record indirectly discloses this subject matter, however, in that petitioner's husband secured a patent in 1964 on a key ring (App. 33-38) and respondent's counsel asserted that

the subject matter of the patent (then in application form, see App. 18-19) was covered by the 1956 agreement (App. 39, 56). Moreover, the record contains pictures of a number of other key rings (App. 43-53) stipulated to be "substantially identical to that exclusively licensed" by petitioner to respondent (App. 20). In the Appendix to this brief (*infra*) it is shown that this subject matter is that of U.K. Patent No. 707,615, published April 21, 1954, covering a key holder.

Whatever the licensed or royalty-bearing subject matter was, it became generally known in the trade shortly after respondent began selling it. Petitioner's main brief states (p. 4): "The keyholder was such that once it was put on the market by Quick Point it could be copied by others, and in fact, by the late 1960's, others had copied it and were selling similar keyholders"; and the stipulation of facts below (App. 20) says that these competitive key holders were "substantially identical to that" which petitioner disclosed to respondent in 1956. (See also App. 57-58.)

In 1975, after respondent stopped paying royalties (App. 22), respondent brought an action for a declaratory judgment that it was not obligated to pay further royalties (App. 3-6). The parties waived trial, filed cross-motions for summary judgment, and submitted the case for a determination on stipulated facts, the pleadings, and affidavits (App. 59, 61). The district court entered judgment (App. 60) in petitioner's favor. The court of appeals reversed (2-1), on the theory that allowing royalties perpetually on a license under a patent application (which never matured into a patent) was inconsistent with the rule that patent royalties must end after seventeen years, regardless of contrary provisions in a contract (App. 73).

SUMMARY OF ARGUMENT[1]

A. The case at bar is an inappropriate vehicle for comprehensive restatement of the law of trade secrecy preemption. This field of law is too ramified to permit valid universal statements. From state to state and from factual context to factual context all of the following vary widely: the legal theory of the cause of action, the things defined as protectable "trade secrets," the relief available, and the range of persons, with varying relationships to the plaintiff, against whom relief may be had. There is no unitary law of trade secrets; there are diverse trade secret laws.

The factual record of this case (involving a trivial, no-longer secret product) does not present an occasion for resolving the large issues discussed (concerning vast industrial transactions), and for declaring the sweeping rules urged, in some of the *amicus* briefs.

The question properly before the Court is *not* whether federal law never or always preempts state trade secret law—it is clear that the range of preemption is neither total nor nonexistent, but instead occurs or does not, depending on the particular kind of fact pattern (seen with

---

[1] Certain cases are cited repeatedly in this brief, and will hereafter be referred to as indicated below:

Brulotte v. *Thys Co.*, 379 U.S. 29 (1964) ["*Brulotte*"].

Compco Corp. v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964) ["*Compco*"].

Goldstein v. *California*, 412 U.S. 546 (1973) ["*Goldstein*"].

Kewanee Oil Co. v. *Bicron Corp.*, 416 U.S. 470 (1974) ["*Kewanee*"].

Lear, Inc. v. *Adkins*, 395 U.S. 653 (1969) ["*Lear*"].

Scott Paper Co. v. *Marcalus Mfg. Co.*, 326 U.S. 249 (1945) ["*Marcalus*"].

Sears, Roebuck & Co. v. *Stiffel Co.*, 376 U.S. 225 (1964) ["*Stiffel*"].

the proper degree of generality) that is present in the particular case.

B. The applicable standard for whether federal law preempts enforcement of the contract under state law is whether such enforcement will in some way stand as an obstacle to the accomplishment of the full purposes and objectives of federal law. *Hines* v. *Davidowitz*, 312 U.S. 52, 57 (1941). This calls for a balancing of interests. *San Diego Trades Council* v. *Garmon*, 359 U.S. 236 (1959); *International Association of Machinists* v. *Gonzales*, 356 U.S. 617 (1956). The question thus becomes whether enforcing contracts of this type will significantly interfere with carrying out the objectives of federal policy.

That question can be seen in several ways. One is whether enforcement of such contracts (by which we mean contracts for perpetual royalties) effects a usurpation of the public domain or deprives the public of products that are, or should be, in the public domain. While the language of this Court's opinions in *Stiffel* and *Lear*, for example, support this rationale (and there are also factual circumstances in which perpetual confidentiality agreements can injure the public by curtailing its means of using the public domain), nonetheless the "public domain" rationale may be conceptually inadequate for analytical purposes by encouraging resort to legal conclusion rather than to analysis of the facts.

A second, and we believe preferable, way to view the question is in terms of whether there is a significant risk that enforcing perpetual contracts of this type will disturb a careful economic balance that Congress has drawn (by action and inaction) between free competition and regulated monopoly. See *Goldstein*. We submit that any such disturbance should be permitted, at most, only to an extent not substantially greater than necessary to satisfy the legitimate state law interests at stake here. Thus,

if the legitimate state interest involved here can readily and practicably be satisfied by a much less disturbing and restrictive approach than a pereptual-term royalty agreement, then the permanent enforcement of the agreement should not be ordered by the courts.

C. The principal thread running through the arguments supporting a state law interest in enforcing this agreement is the principle that contracts should be obeyed: petitioner agreed to and did confer a benefit on respondent, and respondent should perform in accordance with the agreement. But the state "interest in private good faith is not a universal touchstone which can be made the means of sacrificing a public interest" (*Marcalus*). Instead, compromise and accommodation of state and federal interests should be sought.

Accommodation between these interests, rather than supersession of one by the other, can be realized by using a test based on the value of the head start benefit of the secret disclosure. Protecting the head start value is the legitimate state contract law interest at stake here. Accordingly, perpetual running royalties for licenses under patent applications (which were condemned for patents in *Brulotte*) should be deemed objectionable, as too disturbing to the "careful balance" Congress drew (*Goldstein*). But royalties the amount of which is not greatly in excess of the head start value should be tolerated. Respondent seeks no refund; hence, if the $200,000 it paid over nineteen years is greatly in excess of the value of the head start benefit petitioner conferred on respondent, that should be the end of the case.

The test proposed is supported by ample precedent in the lower federal court trade secrecy decisions (see, *e.g.*, *Northern Petrochemical Co.* v. *Tomlinson*, 484 F.2d 1057 (7th Cir. 1973); *Schreyer* v. *Casco Prods. Corp.*, 190 F.2d 921 (2d Cir. 1951), *cert. denied*, 342 U.S. 913 (1952)). It is supported also by precedent in the field of covenants

not to compete and employee post-employment confidentiality agreements. Finally, the test proposed is workable and sufficiently narrow to permit the Court properly to decide the case at bar without being obliged to trace out and define at this time the larger contours of the preemptive doctrines generally appropriate to federal intellectual property law and the adjacent body of state tort, contract, and property law.

ARGUMENT

I. The Question of Trade Secrecy Preemption Cannot Meaningfully be Determined in Universal Terms—the Field Is too Diverse and Problematical for Sweeping Generalizations.

This case is not an apt vehicle for comprehensive restatement or reordering of the law well beyond the factual context presented here. Indeed, the nature of the subject matter mandates the contrary, a particularistic approach. The law of trade secrecy is too ramified—a portmanteau carrying too many disparate legal theories, causes of action, interests, and policies—to permit easy generalizations as to how universally to resolve the small and large conflicts between some of its elements and some elements of federal patent and national competition policies. Those *amicus curiae* that press the Court for such sweeping generalizations about the proper relationship between federal law and the scope of state law (not only as to trade secrets, moreover, but as to all industrial or commercial know-how as well) do the Court and our federal system a disservice. Moreover, the factual record before the Court discloses a series of events that has little to do with the broad principles and imperial-scale business transactions discussed in some *amicus* briefs. The present dispute over payment for a trivial key ring, that long ago stopped being a secret,[2] in a case with large gaps in the factual

[2] At the very least, the key ring stopped being a secret in the 1960's when competitive, "substantially identical" products began

record,[3] furnishes a vehicle most ill-suited for a restatement or recreation of the law of preemption in the intellectual property field.

Trade secret law in this country is largely a Nineteenth Century outgrowth of "unfair competition" doctrine.[4] In simplest terms, trade secret law provides legal machinery by which the discoverer (or his employer or

appearing on the market (App. 20). Indeed, any secrecy vanished upon respondent's marketing the key ring in 1956 (App. 19), because, as petitioner states in its main brief (p. 4), "The keyholder was such that once it was put on the market by Quick Point it could be copied by others." We show, further, in an Appendix to this brief (*infra*) that the subject matter (a two-piece keyholder consisting of an ornamental medallion and a resilient wire loop for holding keys which is detachable from the medallion by pressing together the free ends of the resilient loop, see App. 18-19, 33-38, 39; see also App. 20-21) was disclosed in a U.K. patent published in 1954, more than a year before both the filing date of petitioner's patent application (cf. 35 U.S.C. § 102(b)) and the agreement between petitioner and respondent.

The facts of this case simply do not present the large questions urged in so many of the briefs. By the same token, the decision of the court of appeals does not have the sweeping impact which those briefs attribute to it.

[3] For example, the record does not disclose the precise subject matter of the agreement. The agreement (App. 23) is for the "right to make and sell keyholders *of the type shown* in your application, Serial No. 542677" (emphasis supplied), but the application is not part of the record. All the Court can do here is *infer* the nature of the subject matter from other documents (such as App. 33-39).

The intent of the parties is not disclosed, and can only be inferred. Did the parties intend a patent license with the license on the application just a stop-gap? Did Quick Point intend to pay royalties on the product if it fell into the public domain, or if it turned out later that it had all along been in the public domain?

[4] In *Kewanee* the Court said trade secret law was imported into the United States in an 1868 Massachusetts decision, *Peabody* v. *Norfolk*, 98 Mass. 452 (1868). 417 U.S. at 493, n. 23. It appears that the development of trade secret law in England does not significantly predate *Peabody*. For a general historical discussion of the roots of trade secret law, see Orenbuch, *Trade Secrets and the Patent Laws*, 52 J. Pat. Off. Soc'y 638 (1970).

other successor in interest) of a patentable or unpatentable technological idea (or nontechnological idea or means of doing business) may secure relief against a person who seeks to exploit the idea commercially despite a contractual or other legal duty not to do so.

The legal theory upon which trade secrecy relief is granted greatly varies, and it does so from state to state. The theory may be property,[5] express[6] or implied[7] contract, tort,[8] constructive trust,[9] or unjust enrichment.[10] These differences in theory lead to significant differences in result.

Moreover, the definition of a trade secret or the range of things deemed legally protectable under the name of trade secrecy law also varies widely from state to state. For example, any and all of the following very different

[5] E.g., *Pearson* v. *Dodd*, 410 F.2d 701, 707-08 (D.C. Cir.) (dictum), cert. denied, 395 U.S. 947 (1969); *Speedry Chem. Prods., Inc.* v. *Carter's Ink Co.*, 306 F.2d 328, 330 (2d Cir. 1962).

[6] E.g., *Painton & Co.* v. *Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971); *Warner-Lambert Pharm. Co.* v. *John J. Reynolds, Inc.*, 178 F. Supp. 655 (S.D.N.Y. 1959), aff'd mem., 280 F.2d 197 (2d Cir. 1960).

[7] E.g., *Trice* v. *Comstock*, 121 F. 620, 623 (8th Cir. 1903); *Plant Industries, Inc.* v. *Coleman*, 287 F. Supp. 636, 644 (C.D. Cal. 1968). The district court in *Kewanee* said that Ohio law creates "an implied agreement on the part of the employee" not to disclose trade secrets to a competitor of the employer. Such so-called agreements are "quasi-contracts." See 3 *A. Corbin, Contracts* § 562 (1950); 1 *S. Williston, Contracts* §§ 3-3A (3d ed. 195[illegible]).

[8] E.g., *Bruce* v. *Bohanon*, 436 F.2d 733 (10th Cir. 1970), cert. denied, 403 U.S. 918 (1971); *Smith* v. *Dravo Corp.*, 203 F.2d 369, 373 (7th Cir. 1953) (breach of confidence is tort); *Restatement of Torts* § 757 (1938).

[9] E.g., *Trice* v. *Comstock*, 121 F. 620, 622 (8th Cir. 1903); *By-Buk Co.* v. *Printed Cellophane Tape Co.*, 163 Cal. App. 2d 157, 329 P.2d 147 (Dist. Ct. App. 1958).

[10] E.g., *Servo Corp.* v. *General Elec. Co.*, 337 F.2d 716, 722-25 (4th Cir. 1964), cert. denied, 383 U.S. 934 (1966); *Engelhard Indus., Inc.* v. *Research Instrumental Corp.*, 324 F.2d 347, 352 (9th Cir. 1963), cert. denied, 377 U.S. 923 (1964).

things have been called trade secrets: computer programs, plans for building a polyethylene factory, plans for building a jet engine, the idea for a key ring, customer lists, sales promotional plans, ideas for the format of a new tax law service. The amount of ingenuity or novelty requisite is also variable from jurisdiction to jurisdiction. Thus, combinations of elements that can readily be devised by a skilled mechanic upon demand may [11] or may not [12] be deemed capable of being the subject of a legally protectable trade secret. The subject matter of an expired patent may [13] or may not [14] be protectable under trade secret law.[15]

---

[11] *Atlantic Wool Combing Co.* v. *Norfolk Mills, Inc.*, 357 F.2d 866 (1st Cir. 1966).

[12] *Sarkes-Tarzian, Inc.* v. *Audio Devices, Inc.*, 166 F.Supp. 250, 265 (S.D. Cal. 1958), aff'd mem., 283 F.2d 695 (9th Cir. 1960), cert. denied, 365 869 (1961) (combinations that are readily ascertainable by a skilled mechanic cannot be the subject of a trade secret).

[13] *Franke* v. *Wiltschek*, 209 F.2d 493 (2d Cir. 1953).

[14] *Luccous* v. *J. C. Kinley Co.*, 376 S.W.2d 336 (Tex. 1964).

[15] Thus, that a particular state characterizes a given legal doctrine as "trade secret law" does not guarantee that that doctrine will steer clear of protection of nonsecret things "in reality a part of the public domain" (*Lear*, 395 U.S. at 656). At the same time, there is substantial pressure from some segments of the bar (views that are reflected pervasively in the *amicus* brief of the American Patent Law Association) to sweep up every conceivable kind of nonsecret know-how under the state trade-secret-law umbrella, and thus expand the concept of "trade secret" to the horizons of industry and commerce.

To be sure, this pressure to expand the scope of "trade secret" runs counter to the underlying assumptions of *Kewanee* and to a considerable body of existing law in the lower federal and the state courts. Thus, in *Kewanee* the Court seems to have assumed a consensus definition of "trade secret," under which "secrecy * * * implies at least minimal novelty" (416 U.S. at 476), and it expressly stated that "[b]y definition a trade secret has not been placed in the public domain" (*id.* at 484). It has been suggested that the Court may have intended to overrule, by implication, those cases taking a more expansive view of what can be protected as a "secret"

The form and extent of relief granted also varies from state to state. The quantum of damages, type of injunction (if any), and scope of ancillary relief also varies. The court may extend protection to the product made by the trade secret holder, whether or not the secret is used to make the product,[16] or the court may protect only against use of the secret in making such products.[17]

The potential range of persons against whom relief may be had is also considerable, covering a spectrum definable in terms of the relation that exists between the defendant and the holder of the trade secret. One end of the spectrum includes purchasers or "bailees" of products or intangibles (such as computer programs), who become subject to a covenant running with the product or intangible, limiting their freedom to use information gained as a result of the purchase or "bailment." Next on the spectrum are licensees or subcontractors to whom the trade secrecy claimant has disclosed the secret, subject to a contract expressly or impliedly limiting the disclosee's use or subjecting the use to a condition (such as royalty payments). Next are present or former employees who are subject to an express contract, or implied contract or duty, not to disclose or subsequently use the secret after they go to a different job. Partners and fiduciaries of the trade secret holder also have an

---

(Stern, *A Reexamination of Preemption of State Trade Secret Law After Kewanee*, 42 Geo. Wash. L. Rev. 927, 962 (1974)), but this is at the very least an unsettled question.

The ultimate point is that the definition of "trade secret" itself is a Pandora's Box. Any broad resolution of trade secrecy preemption requires that box to be opened, and it is unpredictable what will come out of that box before it can be closed.

[16] *Sperry Rand Corp.* v. *Electronic Concepts, Inc.*, 325 F. Supp. 1209, 1219 (E.D. Va. 1970), aff'd, 447 F.2d 1387 (4th Cir. 1971), cert. denied, 405 U.S. 1017 (1972).

[17] *Hampton* v. *Blair Mfg. Co.*, 374 F.2d 969, 973 (8th Cir. 1967); *Winston Research Corp.* v. *Minnesota Min. & Mfg. Co.*, 350 F.2d 134, 143-44 (9th Cir. 1965).

obligation, implied by law, with respect to the secret. Finally, there are third-party trespassers—those who "steal" the secret by means of burglary, espionage, or other conduct deemed unprivileged. The policy considerations that properly apply to different segments of this spectrum vary significantly with the relational interests at stake. The reliance of the courts on duties implied or imposed by law, in addition to those existing by express consent, similarly makes for different policy considerations applicable to different contexts.

In sum, the law of trade secrets cannot properly be viewed as a single, well-defined body of doctrine. Like the rest of unfair competition law, which includes a broad spectrum of practices,[18] trade secret law is a congeries including diverse legal principles and theories applied to a considerable range of conduct. There is no unitary "trade secret law"; there are many trade secret laws. Consequently, the sweeping generalizations about trade secrecy law that occur in some of the *amicus* briefs are, if embraced, an invitation to disaster in the administration of the law. The case at bar can be decided rationally, we submit, only in the light of policies applying to its particular type of context and it cannot properly be a jumping off point for final settlement of the whole trade secrecy preemption question.

It seems clear to us that, at some point, the policies and objectives of the federal patent system and national competition policy will meet or have already met serious obstacles from the enforcement of some of what is at

[18] The spectrum includes such practices as the "palming off" of one's goods as those of another, by using another's trade name (said, in *Stiffel*, not to be preempted), the "misappropriation" of the design of goods in disregard of the expenditures of time and money by the first comer (preempted in *Stiffel*), and misrepresentation as to the nature or quality of one's own or another's goods. Cf. Federal Trade Commission Act § 5, 15 U.S.C. § 45; *FTC* v. *Sperry & Hutchinson Co.*, 405 U.S. 233, 244 and n. 5 (1972).

some times and places called "trade secrecy law." The diversity of the subject matter alone is enough to insure that: (1) legal relief supporting asserted rights to things protected under this legal rubric in some circumstances in some jurisdictions surely can interfere with the achievement of federal patent and national competition policies; while (2) other circumstances will occur in which the opposite is true. The question properly before this Court, to which we presently turn, is not that of drawing the entire map for this area of law, but simply whether the instant case (seen with the proper degree of generality) is within the one category or the other.

II. Agreements for Confidentiality in Perpetuity can at Times Stand as Obstacles to the Accomplishment of the Objectives of Federal Law.

There is no serious disagreement over the general standards of federal preemption. In other contexts very different standards of preemption may well apply,[19] but

[19] For example, state law is automatically preempted when it orders conduct opposite to conduct that federal law commands or the same as that which it prohibits. *Florida Lime & Avocado Growers, Inc.* v. *Paul*, 373 U.S. 132, 142-43 (1963); *Free* v. *Bland*, 369 U.S. 663 (1962) (federal law provides that surviving co-owner of bond succeeds to title; state law, that heir succeeds); *Amalgamated Ass'n of Employees* v. *Wisconsin Employment Relations Bd.*, 340 U.S. 383, 398-99 (1951) (state anti-strike law in conflict with federal labor legislation protecting right to strike); *Case* v. *Bowles*, 327 U.S. 92 (1946) (state law commanded sale at price found to be prohibited by federal price controls); see *Franklin National Bank* v. *New York*, 347 U.S. 373 (1954) (federal law authorized use of "savings" bank title that state law prohibited). This case involves no such extreme conflict, however.

In other cases, again not pertinent here, state law is virtually automatically not to be preempted, because there is a compelling and overriding state interest at stake, such as that in preventing physical violence or other very socially disruptive conduct. See *San Diego Bldg. Trades Council* v. *Garmon*, 359 U.S. 236, 247-48 (1959). Nonlabor cases recognize other areas of preeminent state interest,

in the instant case the question is simply whether enforcement of agreements of the type in issue will in some way stand as an obstacle to the accomplishment of the full purposes and objectives of federal law. See *Hines* v. *Davidowitz*, 312 U.S. 52, 57 (1941) (leading case).[20] Whether the two systems of law, state and federal, are similar or different in objectives or policies is not in itself determinative (*Perez* v. *Campbell*, 402 U.S. 637, 651-52 (1971); *Florida Lime & Avocado Growers, Inc.* v. *Paul*, 373 U.S. 132, 142 (1963)), although such duplication or difference may in some circumstances be the cause of a significant degree of interference by the state law with the accomplishment of the federal objectives and policies. Still, it is only the latter which is critical—if there is a significant degree of interference state law must give way, and if there is not a significant degree of interference state law should be left undisturbed, in both cases regardless of the state's purpose.

This preemption test clearly requires a balancing of interests. It is appropriate to ask, but it is not enough to ask merely, whether enforcing such contracts will significantly decrease the likelihood that particular things or

besides violence or socially disruptive conduct, such as the state's interest in the health and safety of its citizens. See *Huron Portland Cement Co.* v. *City of Detroit*, 362 U.S. 440, 445 (1960) (air pollution); *Southern Pac. Co.* v. *Arizona*, 325 U.S. 761, 766 (1945) (health or safety) (dictum); cf. *Plumley* v. *Massachusetts*, 155 U.S. 461, 472 (1894) (fraud and deception in sale of food).

[20] The Solicitor General misstates the law (Br., pp. 9, 11, 13) in suggesting that the entire test is whether action in the name of state law "frustrates" federal policies. Compare the more modest statement of the law in Pet. Br. 10-11. Preemption need not wait until the state actually "frustrates" federal policy; it is sufficient that there be enough interference as to "impair the federal superintendence of the field" (*Florida Lime & Avocado Growers, Inc.* v. *Paul*, 373 U.S. 132, 142 (1963)). We think it fair to say that the *Hines* test, in requiring an "obstacle," does not demand an absolute "barricade." The proper distinction is between a significant or substantial interference on the one hand and a trivial or insubstantial inconvenience on the other.

events will happen that federal law is aimed at making happen.[21] A reasoned analysis requires consideration,

[21] These are such things as encouragement of invention, disclosure of invention, recourse to the patent system, and the like.

We think that the unmitigated and undifferentiated enthusiasm in certain *amicus curiae* briefs for the trade secrecy system, in all its varied ramifications, as a substitute for the patent system is excessive and unwarranted by the facts of commercial life, and it ignores the real social costs of trade secrecy law. See, e.g., Brief of Solicitor General, Brief of American Patent Law Association, *passim*. This is so particularly as to ex-employees bound by express or implied contracts of adhesion limiting their freedom to seek new jobs or start up their own businesses. See generally Blake, *Employee Agreements Not to Compete*, 73 Harv. L. Rev. 625, 682-83 (1960); Goldschmid, *Antitrust, Neglected Stepchild: A Proposal for Dealing with Restrictive Covenants Under Federal Law*, 73 Colum. L. Rev. 1193, 1200-01 (1973); Stern, *A Reexamination of Preemption of State Trade Secret Law After Kewanee*, 42 Geo. Wash. L. Rev. 927, 982-986 (1974).

It is said that trade secret agreements will not "diminish disclosure by diverting inventions from the patent system" (Brief of Solicitor General at p. 14). Others have echoed this assumption, uniformly without factual support in the form of empirical evidence (in this record or elsewhere). The only data that exists anywhere is that in recent years a number of commentators (primarily, members of the patent bar) have noted that there is severe competition between the patent and trade secrecy systems, some of them suggesting that the trade secret route is likely to be the more advantageous choice for business. See, *e.g.*, Frost, *Patent Rights and the Stimplation of Technical Change*, in Patents and Progress 61, 67-8 (Anderson, Terpstra, Shapiro eds. 1965); Milgrim, *Trade Secret Protection and Licensing—A True Alternative*, 4 Pat. L. Rev. 375 (1972); Orenbuch, *Trade Secrets and the Patent Laws*, 52 J. Pat. Off. Soc'y 638, 665 (1970). Frost, *supra* at 68, states that trade secret protection has already supplanted the patent system in a number of fields of technology (e.g., plastic compositions, alloys, photographic emulsion manufacturing). One distinguished commentator in the field has gone so far as to say that the "bright prospects for the future of trade secrets might possibly cause a flight from the patent system." Address by Roger Milgrim, Before FBA-BNA Briefing Conference, reported in No. 182, BNA Pat., Trade, Copr. J. at p. A-9 (June 13, 1974). It thus appears that the only evidence, such as it is, points in the direction of the very diversion that it is assured to the Court will not happen. We think that the diversion problem is only a subsidiary issue, however, and other aspects of the preemption question are much more pressing,

also, of whether enforcing contracts of this type will significantly disturb a balance that Congress set, by its omission or inaction as well as by affirmative regulation. See generally *Goldstein*, 412 U.S. at 569-70; *San Diego Building Trades Council* v. *Garmon*, 359 U.S. 236 (1959); *International Ass'n of Machinists* v. *Gonzales*, 356 U.S. 617 (1958).

There are, potentially, two principal rationales for determining preemption *vel non* of trade secrecy law (apart from that relating to the possible diversion of inventions away from the patent system, see note 21, *supra*), both of which relate to the federal patent and national competition policies extensively discussed in the Solicitor General's *amicus* brief (pp. 10-11 and *passim*).[22] As that

here. For a general criticism of the arguments made for and against the rationale for trade secrecy preemption based on diversion of inventions (and their disclosures) away from the federal patent system, see Stern, *supra*, at 946-52, 968-69.

In our view, there is no point in considering the preemption rationale based on diversion of inventions away from the patent system, in the case at bar. Petitioner did not have an "invention," and petitioner was not diverted away from the Patent Office. In fact, petitioner did file a patent application and the Patent Office rejected it for lack of invention (App. 20). The facts of this case therefore furnish no sound basis for generalizations about future cases with a contrary state of facts.

[22] Our national policy, derived not merely from the antitrust statutes but from a considerably more pervasive body of statutory and case law, is free competition (see *Gulf States Util. Co.* v. *FPC*, 412 U.S. 944 (1973); *United States* v. *Philadelphia Nat. Bank*, 374 U.S. 321, 372 (1963)), which allows the forces of the marketplace rather than self- or government-appointed regulators to allocate our economic resources. Its premise is that unimpeded operation of market forces will bring about the greatest material progress and at the same time preserve and promote our political and social institutions (see *United States* v. *Topco Assoc., Inc.*, 405 U.S. 596, 610 (1972); *Northern Pac. Ry.* v. *United States*, 356 U.S. 1, 4 (1958)).

A major exception to this policy, but one designed to promote the same end of material progress, is the federal patent system (see *Blonder-Tongue Labs, Inc.* v. *University of Illinois Founda-*

brief properly suggests, a complementary approach to competition, monopoly, innovation, and material progress —simultaneously utilizing the patent system of regulated monopoly and the free competition system together to benefit the public maximally—has long characterized our law.[23] This Court has consistently recognized this dual policy. Thus, in *Goldstein* (412 U.S. at 569) the Court stated that the standards of the federal patent laws "indicated not only which articles Congress wished to protect, but which configurations it wished to remain free." In enacting the patent scheme Congress "balanced the need to encourage innovation and originality" against society's "need to insure competition in the sale of identical or substantially identical products," carefully drawing the balance at the inventive level defined by the patent statute. Accordingly, where the patent laws stop the public domain of competition begins.[24]

tion, 402 U.S. 313, 343 (1971); *Lear*, 395 U.S. at 663; *Precision Instrument Mfg. Co.* v. *Automotive Maintenance Mach. Co.*, 324 U.S. 806, 816 (1945)). To promote the progress of science and useful arts, the patent system offers inventors the incentive of a limited competitive advantage over others as a reward for disclosing inventions. The patent system substitutes a 17-year monopoly for free competition, if the inventor can comply with the patent statute's strict requirements of novelty (35 U.S.C. § 102), inventiveness (35 U.S.C. § 103), and utility (35 U.S.C. §§ 101, 112), and is willing to comply with the statute's requirements of full disclosure (35 U.S.C. § 112).

[23] The Statute of Monopolies, 21 Jac. I, c. 3 (1623), for example, prohibited monopolies but permitted an exception for new and useful innovations. *Stiffel*, 376 U.S. at 229 & n. 6. The antitrust laws and patent laws continue forward these twin branches of the Statute of Monopolies.

[24] *Goldstein's* explanation of federal policy does not clear new ground; it merely places an explanatory gloss on *Stiffel*, *Compco*, and *Lear*, for the principle is one to which the entire Court adhered without dissent in these cases. Dissenting opinions in these cases all involved other issues on which there was disagreement.

One possible rationale for determining whether preemption should occur here that emerges from these cases and the foregoing federal policy, therefore, is that private parties should not be allowed to usurp control over products "in the public domain." A second possible rationale involves maintenance of the particular economic balance that Congress carefully drew in order to maximize competition and the flow of commercial ideas, and a determination of whether enforcement of the type of contract involved here unduly disturbs that careful balance. For the reasons that follow, we believe that the second rationale is preferable.

The first possible rationale (usurpation of the public domain) finds support in the language of the cases, particularly *Stiffel*, *Compco*, and *Lear*. The problem is that the phrase "in the public domain," as it has been used in the cases, is much less an empirical datum or operative fact than it is simply the reflection of an ultimate legal conclusion. That legal conclusion depends, in any given case, on the tribunal's analysis of the policies of patent law, anti-monopoly law, the common law as to covenants not to compete, and even more general notions as to personal mobility and freedom, or the sanctity of promises.[25]

[25] Thus, when the Court said, in *Stiffel*, that "[a]n unpatentable article, like an article on which the patent has expired, *is in the public domain* and may be made and sold by whoever chooses to do so" (376 U.S. at 231 (emphasis added)), it stated an ultimate conclusion about the legal protection it deemed legitimately available for all such products, rather than a factual observation about whether particular products had been observed to be in the public domain. Clearly, the same is true of Mr. Justice Frankfurter's statement in *Marcalus*, 377 U.S. at 522 (dissenting opinion), that "[a] machine that is not patentable because it is not novel is just as much part of the public domain as a machine on which the patent has expired". See also *Aro Mfg. Co.* v. *Convertible Top Co.*, 377 U.S. 476, 522 (1964) (Black, J., dissenting) ("When articles are not patentable and therefore are in the public domain * * * to grant them a legally protected monopoly offends the constitutional plan of a competitive economy free from patent monopolies except where there are patentable 'Discoveries' ").

Similarly, the *Lear* concept of "full and free use by the public" is more of a legal conclusion of the use of the product to which the public is *entitled* than it is a factual observation about the real availability of the idea to the members of the public. This is really an oblique statement that the public's "use" of technology is necessarily indirect—the technology is used not by consumers themselves, but by manufacturers or tradesmen who ultimately sell to consumers products embodying the technology.[26] There is a core of substantive policy in the "public domain" argument for preemption, but there is serious difficulty in separating mere discourse and legal conclusion from underlying operative fact.

There are nonetheless practical contexts in which agreements for confidentiality in perpetuity, that are quite like the present contract, can seriously injure the public in one way or another by curtailing the public domain. For one example, if the present contract is permissible, why is not the following hypothetical: an IBM (or a Xerox or any other powerful firm) adopts a provision in its standard employment contract to the effect that the employee agrees that, if he ever goes to another employer or starts up his own new company in competition with IBM, he will pay a 50% running royalty forever on the sales price of any product that utilizes in any way some of the confidential information that the employee gained while in IBM's employ, regardless of whether such information is at the time generally known. For another

[26] In the *Lear* and *Stiffel* cases, those who asserted the right of the public to full and free competition did so as surrogates for the public; there is no practical way for the public, virtually ever, to use ideas "in the public" domain except through such surrogates. Accord, *Marcalus*, 326 U.S. at 255-56 ("If a manufacturer or user could restrict himself, by express contract, or by any action which would give rise to an 'estoppel,' from using the invention of an expired patent, he would deprive himself *and the consuming public* of the advantage to be derived from his free use of the disclosures") (emphasis added).

example, IBM enters into a contract like that involved between petitioner and respondent. The public can get all the benefits of competition by buying the product from IBM's competitors, if it can find them. In the meantime, IBM passes the price on because of administered pricing. Of course, not every trade secret agreement will hurt the public by curtailing the scope of the public domain. But it is blind in the extreme to deny that enforcement of such agreements will *never* interfere with the objectives of national competition policies.[27] The problem of legal analysis, however, may be that the doctrine that the public is entitled to the full and free use of things in the "public domain" is too blunt a conceptual instrument for the task now before the Court. We think that the same ground can be covered more effectively under a second conceptual approach, however, to which we now turn.

---

[27] The Solicitor General recognizes this (Br. at 27 and nn. 13-14), but (1) assures the Court that it can rely on the option of enforcement of the antitrust laws to safeguard the public against all such risks, and (2) urges the Court at the same time, not to create any policy of nonenforcement of contracts "beyond that which is clearly the requirement of the Sherman Act." The first proposition is surely an illusory promise in the present context, for the antitrust laws are an unworkable and incredibly costly tool here. Small manufacturers and ex-employees cannot afford such luxuries as proving relevant market, dangerous probability of success, or a rule of reason case, in order not to be bound forever by a confidentiality agreement; nor can they afford the massive discovery mounted in such cases. At best, only the Antitrust Division or a corporate giant can afford the expense of and can successfully administer such a struggle. As for the second point, what "clearly" is prohibited by the Sherman Act does not represent the outer boundary of what harms the public when perpetual confidentiality agreements are enforced. As this Court has observed in a different context, monopoly can thrive at a creeping pace as well as at full gallop (see *International Salt Co.* v. *United States*, 332 U.S. 392, 396 (1947) (patent tie-ins held illegal *per se*)).

Unless preemption remains as an alternative legal device to deal with these problems in appropriate cases, there will be no available legal device at all. "The option of enforcing the antitrust laws against such restraints" (Br., *supra*, at 27, n. 13) is simply not a viable option.

The second possible rationale for selective determination of preemption *vel non*, and we think the better one, rests on maintaining the particular economic balance that Congress carefully drew in enacting the patent laws. As *Goldstein* pointed out (412 U.S. at 569-70), Congress drew an economic balance between the public's need for or right to free competition and its need for innovation, a balance designed to maximize the public good. There is a similar public need for and balance drawn to protect free interchange of commercial ideas, which is recognized in such cases as *Atlantic Works* v. *Brady*, 107 U.S. 192, 199-200 (1882), and *Lear*. See also *Gottschalk* v. *Benson*, 409 U.S. 63, 67 (1972) (abstract intellectual concepts not patentable, because "they are the basic tools of scientific and technological work"). This "careful balance" (*Goldstein*, 412 U.S. at 570) also reflects, to a significant degree, the recognized limits that the Constitution (Article I, § 8, Cl. 8) places on the Congress' power to promote the progress of science and useful arts by "for limited times" granting inventors exclusive rights to their discoveries. In any event, perpetual confidentiality agreements clearly can and do disturb this equilibrium, to some degree, and therefore there is at times some impact on or alteration of "the careful balance which Congress had drawn." If the amount of impact is undue, the enforcement of these agreements under state law must give way. The question then becomes one of the degree of impact—when it is *undue*.

We submit that any substantial impact is undue and thus impermissible, unless there is a permissible state purpose practicably achievable only by such state action. Congress, in establishing federal law is entitled to strike a balance, within the limits of the Constitution; once such a balance is struck, it should not be drawn or altered by the operation of state law, at most, appreciably beyond the amount necessary to carry out the state law purpose. How much, then, is such a "substantial" and thus undue and impermissible impact? It is pointed out,

to be sure, that trade secret relief does not operate against all the world and thus is not fully "the equivalent of a patent monopoly" (*cf. Stiffel*, 376 U.S. at 233); for that reason, it must be conceded, such a system is not fully as objectionable as a state law patent system (such as that involved in *Gibbons* v. *Ogden*, 9 Wheat. 1 (1824)),[28] but that is simply not dispositive. State action need not be the *full equivalent* of a patent monopoly to be substantial enough to interfere impermissibly, under *Hines*, *supra*, with the accomplishment and execution of the full purposes and objectives of Congress. The 20% or 40% equivalent of a patent monopoly may be enough, also. One cannot, of course, quantify impacts of this type as 20%, 40%, or 100% equivalents of a patent monopoly. We think that ways can be suggested, however, in which the impact of enforcing perpetual trade secrecy agreements may be severe enough at times to warrant preemption, because the impact of enforcement is disproportionately greater than the legitimate state interest protected. Several such ways were already suggested (*supra*, pp. 21-22) as hypotheticals under the "public domain" rationale.

A significant insight as to further possible competitive impact is given by *Lear*. The distinction between relief against all the world, on the one hand, and relief against only the class of persons as to whom the trade secret claimant has a relational or other legal interest, on the other hand, may be illusory if those potentially subject to such relief are the particular persons likely to be of principal competitive significance to the public as potential entrants into the market. The same type of "limited class" of persons bound argument was made for the doctrine of licensee estoppel dealt with in *Lear*. There, it

[28] Contrary to the assertions of one of the *amicus* briefs (American Patent Law Association, at p. 34), the *Gibbons patent*-preemption issue *was* extensively briefed in this Court in *Compco*. See Brief for United States as *amicus curiae*, in the *Compco* and *Stiffel* cases, pp. 21-23 and n. 11.

was asserted that the whole public was not estopped from competing with the patentee by infringing his patent and challenging its validity if sued; rather, the only ones estopped were those who promised the patentee not to challenge validity. The Court rejected that argument, because the estopped licensee was often the most likely new competition available, and the overwhelming majority of the public simply had no ability to enter the particular market.[29] The consuming public at large is the beneficiary of competition only to the extent that rival tradesmen benefit from unrestricted exploitation of technological advances.[30] That state trade secret law relief operates against less than all the world does not make such law competitively irrelevant, because, like estopped licensees, disaffected employees or dissatisfied parties to agreements may often be those most likely to furnish the public with competition. Hence, muzzling them creates a significant risk that few or no others will step forward to benefit the public by exploiting the advance competitively.

The question then is what conclusion should be drawn from the risk that enforcement of perpetual secrecy agreements will "disturb the careful balance which Congress had drawn" (*Goldstein*, *supra*). If the risk is substantial enough in the abstract, in a particular situation or pattern of events, is that enough for preemption? Or must the disturbance be shown, as a matter of fact, in each individual case before the individual contract must give way? It is probably impractical to show specific adverse effects on the achievement of federal policies and objectives in each perpetual confidentiality case.[31] Instead, it

[29] See *Lear*, 395 U.S. at 670.

[30] See note 26, *supra*.

[31] Preemption cases rarely, if ever, will come to this or any other court with trustworthy data in the record or briefs, that the court can rely on for general policy-making purposes. The search for appropriate such facts is probably a futile exercise in any event. Should the preemption issue for a whole category of industrial ar-

probably should be enough to show that the risk of that happening is significant, in general, and that in the particular case the legitimate state law interest at stake can readily be satisfied by adopting something much less restrictive or much less potentially disturbing to the federal equilibrium—in the instant case, that would mean something much shorter and less restrictive than a perpetual-term agreement. In the next section of this brief, a selective preemption test is proposed that (we believe) can eliminate undue disturbance of the carefully drawn federal balance, can satisfy the legitimate state law interest at stake, and finds support in the case law.

III. To Avoid Undue Interference With Federal Law, While at the Same Time Protecting Legitimate State Law Interests, the Royalty-Bearing Life of a License Under a Patent Application Must Be Reasonably Related to the Head Start Value of the Secret Disclosure.

A number of interests may be advanced in support of state trade secret enforcement.[32] The principal thread

rangements turn on adversary strategies, concessions of counsel at argument, the happenstance of a particular record? Would such a record add credibility to the decision-making process? For a more extensive criticism of the record or "Brandeis brief" approach to deciding preemption questions, see Stern, *A Reexamination of Preemption of State Trade Secret Law After Kewanee*, 42 Geo. Wash. L. Rev. 927, 947-48 (1974).

[32] Except for the interest of freedom of contract, which is the focus of the discussion in text that follows, the interests are highly speculative and at best make weights. Thus it is said that states should be permitted to encourage disclosure and to protect investments made to create new ideas (although no substantial such investment was shown to have occurred here). This is on the theory that the federal patent system (which petitioner unsuccessfully sought to invoke) is not a sufficient incentive for R & D or disclosure and therefore needs to be supplemented. Not only is there no empirical support for the notion that a lower standard than that provided by the patent laws would call forth more rapid technological progress than is presently elicited (by the pressures of competition, by government and university funding, and of course by the patent system itself, among many other things), but the notion makes an

running through them, we believe, is that of freedom of contract or that contracts should be obeyed: petitioner agreed to and did confer a benefit upon respondent, respondent agreed to pay petitioner a particular consideration in return for the benefit, and commercial morality therefore requires that respondent should perform in accordance with the agreement. *Pacta sunt servanda.*

But freedom of contract is not an absolute, nor is the principle of commercial morality. They are simply factors in a larger analysis. The argument for business morality was made by the lower court in *Compco*;[33] it was the pre-*Lear* basis for licensee estoppel; it was urged as a justification for price-tampering in *United States* v. *Socony-Vacuum Oil Co.*, 310 U.S. 150, 220-21 (1940). Business morality is a social need, but it is insufficient in itself to justify a limitation on the accomplishment of the objectives of the federal patent system and national competition policy. This Court has consistently demanded a more detailed analysis and justification for legal doctrines or rules in this area. See, *e.g.*, *Compco*, *Lear*, *Socony-Vacuum*, *supra*. As this Court said in *Marcalus*, 326 U.S. at 257, the state's "interest in private good faith is not a universal touchstone which can be made the means of sacrificing a public interest" sought to be secured by the patent laws. The state interest is legitimate, in the sense that the police power will support *some* state action here, but the interest is hardly so preeminent as to

assumption directly contrary to that of the congressional scheme, which is that the standards of the patent laws are the optimum level to call forth technology without undue social cost.

Any prolonged discussion of these interests, however, would necessarily be sterile. Speculation will only be countered by further speculation. To the extent that there is any legitimacy in these other claims of state interest, the interests are satified by the test proposed here to meet the legitimate demands of freedom of and obedience to contract.

[33] 311 F.2d at 30.

justify significant interference with the accomplishment of federal policies or disturbance of a federally-struck balance. The area is clearly one in which compromise and accommodation is to be sought, rather than the supersession of one principle by the other. We submit that such an accommodation is practicable.

Petitioner and respondent agreed on a license under a patent application; although the application in fact never matured into a patent (because the Patent Office Board of Appeals held the key ring unpatentable, App. *20*), nonetheless petitioner conferred some degree of benefit on respondent by disclosing to it something perhaps then a secret (although no longer so for many years now).[34]

The benefit that petitioner conferred on respondent was a head start. Petitioner did not confer a secret process, which respondent still monopolizes (or in which it shares a monopoly). It did not confer an exclusionary right, such as an exclusive patent license or the assignment of a patent.[35] Still, the head start had some value: respondent was able to enter the market before competitors, establish a marketing position, gain some degree of customer habit or good will, and so on.

Our view is that the value of the head start may properly be considered a rough guide to the measure of damages in this and similar cases. To limit what respondent owes petitioner to something not greatly disproportionate to the value of the head start would, to be

[34] The degree of benefit in the case at bar was, however, necessarily a limited one. The Patent Office held the subject matter unpatentable (App. 20), which meant that the Patent Examiner (with whom the Board of Appeals agreed) must have found one or more prior art references (such as patents or publications) that were so close to petitioner's key ring that no patent could be allowed.

[35] If petitioner's application had matured into a patent, instead of being rejected by the Patent Office as unpatentable, such a right would have eventually come into being. The case would then be one like *Lear* or *Brulotte*.

sure, deprive petitioner of some of its present expectations. But it would not unjustly enrich respondent continuingly at petitioner's expense, nor would it deprive petitioner of anything beyond what is really a windfall. More important, to require this respondent to pay this petitioner (and by implication other licensees under other patent applications to pay other such licensors), the value of the head start would justly compensate the petitioner without significantly disturbing the carefully drawn economic balance of the federal patent laws and national competition policy. On the other hand, to require licensees in respondent's position to pay continuing royalties greatly in excess of the head start value of the once-secret disclosure contained in the patent application would unduly disturb that balance, without significant compensating benefits.[36]

Congress itself is limited to protecting inventors of true discoveries for only limited times—in the case of the present statute, for seventeen years (35 U.S.C. § 154), after which the subject matter belongs absolutely to the public. *Kellogg Co.* v. *National Biscuit Co.*, 305 U.S. 111, 119-20 (1938). Hence, state law may not be invoked, whether to safeguard commercial morality or freedom of contract, to enforce a contract for the payment of royalties beyond the seventeen-year life of the patent (*Brulotte*). "If that device were available to patentees," the Court said, "the free market visualized for the post-expiration period would be subject to monopoly influences that have no proper place there" (379 U.S. at 32-33). By the same token, contract law principles should not justify a perpetual royalty-bearing life for a license under a patent application eventually abandoned for lack of

[36] It is not necessary for the purposes of this case to determine anything beyond whether respondent has already paid petitioner an amount substantially greater than what was properly owed petitioner. Respondent does not seek a refund; it simply wants to stop further payments.

invention, and no longer a secret, for that too would subject the free market visualized for nonsecret unpatentable products to monopoly-like influences that have no proper place there.

That does not mean that the licensee should pay the licensor nothing, but royalty payments that are (1) too much like those a legitimate patent would command, and (2) greatly in excess of the value of the legitimate extra-patent system benefit conferred (which is to say the head start value)—come far too close to the point of duplicating the patent system and its mechanisms, and redrawing the economic balance that Congress carefully drew under federal law. To the extent, therefore, that the continuing recovery of damages sought by respondent is substantially beyond the head start value of respondent's perhaps once-secret (but not now secret) disclosure, the court below was right in denying relief to petitioner, and its judgment should be affirmed.

The damages rule urged here finds substantial precedent in the trade secret law field, where it has been extensively employed as the proper measure for the length of injunctions and has also been used to determine appropriate monetary awards. Indeed, there is no proper basis for distinguishing between injunction and damages cases in this context, for either type of relief can disturb the economic balance set by Congress.[37] The proper line

[37] Generally speaking, damages awards may interfere with federal policies virtually as much as injunctions, see *New York Times Co.* v. *Sullivan*, 376 U.S. 254 (1964), while narrow and brief injunctions may be relatively harmless. See *Boys Market, Inc.* v. *Retail Clerk's Union*, 398 U.S. 235, 247-49 (1970).

More specifically in the present context, in *Compco*, the Court declined to accept the proposition that monetary relief was unpreempted while injunctive relief was preempted. See Brief of the United States as Amicus Curiae at 7, 34-37, *Compco* (so suggesting). Instead, the Court ruled that both forms of relief were preempted because they would improperly discourage federally protected copying of unpatented products (376 U.S. at 237).

of demarcation does not depend on whether law or equity is involved[38]—it depends on the impact of state relief on the relevant federal policies (see generally *Sola Elec. Co.* v. *Jefferson Elec. Co.*, 317 U.S. 173, 176 (1942)). As the state remedy comes closer to duplicating the exclusionary remedy of the patent system,[39] there is progressively more significant interference between the two schemes, preventing full accomplishment of the objectives of the patent laws and the objectives of the complementary national competition policy. The seeming near identity of rights conferred by federal and state law led the Court in *Stiffel* to hold state law preempted: "The judgment gave Stiffel the equivalent of a patent monopoly on its unpatented lamp" (376 U.S. at 233).

The recent trend of trade secrecy injunction decisions has been to deny perpetual injunctions and to limit the duration of relief to the actual or projected period of continued secrecy of the trade secret. The injunction granted by the district court in *Kewanee*, for example, was limited in duration to the actual period of secrecy,[40] which may be terminated by independent discovery and publication, or by any other disclosure that occurs by

[38] In patent misuse cases (*i.e.*, examples of a patentee's misuse of the economic leverage of his patent to expand his base of power into adjacent fields, such as by conditioning a license under the patent on the licensee's purchasing unpatented supplies from the patentee), the Court has refused to confine the doctrine to injunction cases, see, *e.g.*, *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502 (1917), but has applied it to suits by the guilty patentee for monetary relief, as well, see *Morton Salt Co.* v. *G. S. Suppinger Co.*, 314 U.S. 488 (1942).

[39] The monetary relief equivalent of a perpetual injunction is an accounting for all profits made, or damages for all lost sales. Damages measured by the value of the effort necessary independently to redevelop the secret, or the value of the head start the possessor of the secret would have enjoyed, are the equivalent of a limited-time injunction. The value of a running royalty in the circumstances, obviously, can be anywhere along this spectrum.

[40] See *Kewanee* App. at 94.

lawful means. The projected period of secrecy is customarily measured by determining how long it would have taken to have independently rediscovered the technology—perhaps by means such as reverse-engineering—once goods embodying that technology were available in the marketplace.

Thus, the better or prevailing view in the lower federal courts [41] now seems to be that expressed in such decisions as *Northern Petrochemical Co.* v. *Tomlinson*, 484 F.2d 1057, 1059 (7th Cir. 1973)—"that period of time for which a wrongdoer [ex-employee bound by secrecy agreement] is to be restrained from the use of a trade secret is [limited] * * * to the period which would have been necessary to develop the secret by independent means." The *Northern Petrochemical* court went on to hold that it would not allow the punitive remedy of a longer injunction, because "only in exceptional cases" should a remedy be granted "which more than compensates a plaintiff for his loss [to the ex-employee or misappropriator]," and it was "manifest" that "the theft of a trade secret is not such an exceptional case" (*id.* at 1060). The Seventh Circuit found further support for its position (*ibid.*) in the national competitive policy that those who copy industrial products from others should not, once the secret product has generally become known in the market, be kept out of the business for all time (so long as the plaintiff elects to enforce its injunction).[42]

[41] There was a former line of authority in the Seventh Circuit and in courts following its lead, to the contrary effect, but the Seventh Circuit now appears to have abandoned this view. See *Forest Labs., Inc.* v. *Pillsbury Co.*, 452 F.2d 621, 624 n. 4 (7th Cir. 1971).

[42] The law in the Eighth Circuit and Missouri (applicable here) is to the same effect. See *Hampton* v. *Blair Mfg. Co.*, 374 F.2d 969 (8th Cir.), cert. denied, 389 U.S. 829 (1967). In *Carboline Co.* v. *Jarboe*, 454 S.W. 2d 540 (Mo. 1970), the court limited an employer's injunction against an ex-employee to protection of its head start interest, but no more (*id.* at 553, 555).

This line of authority in injunction cases is largely post-*Stiffel*, and the decisions frequently expressly rely on *Stiffel*.[43] The same principle was applied to damages relief in the Second Circuit, however, long prior to *Stiffel*. Thus, in *Schreyer* v. *Casco Prods. Corp.*, 190 F.2d 921 (2d Cir. 1951), *cert. denied*, 342 U.S. 913 (1952), the parties (two manufacturers) entered into negotiations for a license during the pendency of a patent application on a steam iron. During the negotiations the plaintiff manufacturer furnished confidential blueprints and manufacturing know-how to the defendant. The court found (*id.* at 924) that a "confidential relationship" was created, which defendant breached by going ahead and making the steam iron without a license. The patent then issued, containing a disclosure of the confidential information. Nonetheless, the defendant's use of the confidential information enabled it to produce and market the steam iron at an earlier date than would have been possible by reverse-engineering the plaintiff's iron or waiting for the patent to issue. Accordingly, the court ordered an accounting of the profits resulting from the acceleration of defendant's production date for the iron, but it denied any other relief, stating that the proposed award of "damages will afford a complete and adequate remedy for any wrong suffered" (*ibid.*).[44]

The principle that relief in trade secret cases should be reasonably related to the value of the head start benefit conferred on the other party finds support, also, in the law concerning covenants not to compete. Perpetual covenants not to compete are usually improper, and their scope and duration usually must be not substantially greater than necessary to protect the legitimate interest

[43] See, *e.g.*, *Forest Labs*, *supra*, 452 F.2d at 624 n. 4; *Hampton*, *supra*, 374 F.2d at 973.

[44] Accord, *Englehard Indus., Inc.* v. *Research Instr. Corp.*, 324 F.2d 347, 353 (9th Cir. 1963) (damages based on profits from acceleration of production date).

they are designed to serve. (*Mitchel* v. *Reynolds*, 1 P. Wms. 181, 24 Eng. Rep. 347 (K.B. 1711); see *United States* v. *Addyston Pipe & Steel Co.*, 85 F. 271, 279-80 (6th Cir. 1898), *aff'd*, 175 U.S. 211 (1899).) Trade secret law and the law of covenants not to compete has already substantially merged in the field of employee trade secret agreements. (See generally Blake, *Employee Agreements Not to Compete*, 73 Harv. L. Rev. 625, 674-81, 686-87 (1960); see also Stern, *A Reexamination of State Trade Secret Law After Kewanee*, 42 Geo. Wash. L. Rev. 927, 982-986 (1974).) The same merger is appropriate (and, at the very least, the body of law is suggestive) as to the royalty duration of trade secret agreements, since the legitimate interest that enforcement of these royalty agreements serves (*i.e.*, protection of the head start value) is properly the measure of the duration of the competitive restriction that such enforcement imposes (*i.e.*, the obligation to pay a running royalty similar to that levied under a patent).

Finally, we note that the test proposed here for preemption *vel non* (based on such cases as *Northern Petrochemical* and *Schreyer*, *supra*) not only accommodates and compromises the competing state and federal interests, permitting each to operate substantially without superseding or jeopardizing the other, but the test is also readily administered.[45] Indeed, as we have shown, it is

[45] We do not believe that the proposed rule is arbitrary, although it is readily administered. We nonetheless note that the Court has on occasion formulated an arbitrary standard that is approximate in terms of finely-tuned policy-making, but that facilitates enforcement and administration of the law because of the relative ease of its application. The per se rules in antitrust law are examples of this. See *Northern Pac. Ry.* v. *United States*, 356 U.S. 1, 5 (1958); cf. *United States* v. *Philadelphia Nat'l Bank*, 374 U.S. 321, 363-66 (1963) (30% rule in merger cases). See also *Linn* v. *United Plant Guard Workers*, 383 U.S. 53, 64-65 (1966) (adoption of *N.Y. Times* standards for labor dispute libels, "by analogy, rather than under constitutional compulsion * * * to effectuate the statutory design with respect to pre-emption"); *Baldwin* v. *New York*, 399 U.S. 66 (1970) (weighing advantages of jury trial to defendant against

already in actual use in the state and lower federal courts, in the trade secret field. Finally, the test is not so sweeping or general as to imply unforeseeable or drastic consequences (as is so for the other resolutions proposed in this case), and it leaves the Court free to trace out the larger contours of the appropriate preemptive rules for federal intellectual property law and adjacent state tort, contract, and property law on some other occasion with a factual context and a record that may be more suited for that purpose than those presented here.

CONCLUSION

For the foregoing reasons, the judgment of the court of appeals should be affirmed.[46]

Respectfully submitted,

EDWARD S. IRONS
RICHARD H. STERN
IRONS & SEARS
1801 K Street, N.W.
Washington, D.C. 20006

Attorneys for Amicus Curiae Ercon, Inc.

September 1978

administrative inconvenience to state, and concluding that balance at which scale tips is six-months imprisonment).

[46] We believe that it is clear on this record that respondent's nineteen years of payments, amounting to some $200,000, are greatly in excess of the possible value of the head start benefit that petitioner conferred on it in 1956. If the Court agrees that this is clear, that should be the end of the case since respondent seeks no refund. If it is not clear, however, we submit that the judgment of the court of appeals should be vacated and the case remanded for a determination of that fact and for further proceedings consistent with this Court's decision.

APPENDIX

APPENDIX

U.K. Patent 707,615 (published April 21, 1954) is reproduced below.

It claims a two-piece keyholder consisting of an ornamental medallion and a resilient wire loop for holding keys, which is detachable from the medallion by pressing together the free ends of the resilient loop.

[SEAL] 707,615

PATENT SPECIFICATION

Date of filing Complete Specfiication: Dec. 17, 1952

Application Date: Jan. 22, 1952 No. 1806/52

Complete Specification Published: April 21, 1954

Index at Acceptance:—Class 44, G2

COMPLETE SPECIFICATION

Improvements in or relating to Key Holders

1. ERNEST JOHN DROWN, a British Subject of Graham Products Limited, of 8 Key Hill Drive, Birmingham 18, do hereby declare the invention, for which I pray that a patent may be granted to me, and the method by which it is to be performed, to be particularly described in and by the following statement:—

This invention relates to key holders and has for an object the provision of a simple and novel key holder enabling keys to be readily attached to and removed from the holder.

A key holder comprises according to this invention a strip of resilient metal bent to form an open loop adapted to receive keys, the strip having end parts projecting outwardly from the loop and an open ended box. The box is for closing the open loop and is adapted to receive the end parts of the strip when those end parts are pressed together against the resilience of the strip with the free extremities of the end parts protruding from the box. These extremities have sideways projections arranged to prevent accidental removal thereof back through the box

by engagement against the end of the box. When it is desired to remove the box, it is only necessary to press together the protruding extremities until these clear the end of the box and then draw those extremities through the box. A similar procedure is followed when closing the loop.

The invention will be more readily understood by way of example from the following description of the key holder, reference being made to the accompanying drawing in which

Figure 1 shows the two parts of the key holder in separated condition,

Figure 2 shows the assembled key holder and

Figure 3 is a section on the line 3—3 of Figure 2.

Referring to the drawing, the key holder comprises a length of stout spring steel wire or strip 12 and a box 13. The strip 12 is bent into the form of a loop 12*a* open at 14 and two divergent straight end parts 12*b*. End parts 12*b* are bent out sideways slightly to form sideways projections 12*c* and then bent back on themselves at 12*d* so that the extremities 12*e* have smooth surfaces.

The box 13 is formed by a flat plate 15 to one surface of which is welded the bent over ends 16 of a C-shaped member 17. The substantially rectilinear box thus formed between plate 15 and member 17 has opposite open ends 18 and its sides 19 are parallel and slightly smaller than the length of end parts 12*b* between the ring 12*a* and sideway projections 12*c*.

By pressing end parts 12*b* together against the natural resilience of the spring metal the extremities thereof can be inserted within the box 13 and pressed inwards until the sideways projections 12*c* emerge from the box and spring sideways thereby preventing subsequent accidental removal of the end parts from the box. In this position,

end parts 12*b* are held towards each other against their natural resilience by the box 13 and thereby ensure that they cannot accidentally slip out of the box. To add or remove a key threaded on the ring 12*a*, it is only necessary to press together the extremities protruding from box 13 until they clear the sides of the box and then pull the loop away from the box. After addition or removal of the key, the end parts 12*b* are restored to the box 13 as before.

Plate 15 on the side distant from member 17 preferably is ornamentend, for example by making it in the form of a badge or the like.

It will be seen that the invention provides a novel key holder providing easy removal and addition of keys while ensuring secure locking of the keys against accidental removal from the holder.

What I claim is:—

1. A key holder comprising a strip of resilient metal bent to form an open loop adapted to receive keys, the strip having end parts projecting outwardly from the loop, and an open-ended box for closing the open loop adapted to receive the end parts of the strip when pressed together against the resilience of the strip with the free extremities of the end parts protruding from the box, which extremities have sideways projections arranged to prevent accidental removal thereof back through the box by engagement against the end of the box.

2. A key holder according to Claim 1 in which the extremities are bent sideways to form the projections.

3. A key holder according to Claim 2 in which the extremities after bing bent sideways are each bent back on itself.

4. A key holder according to any of the preceding claims in which the end parts in their normal state are divergent and the sides of the box are parallel so that when received within the box, the end parts are pressed together against the resilience of the strip.

5. A key holder according to any of the preceding claims in which the box carries a badge or like ornament.

6. A key holder substantially as described with reference to the accompanying drawing.

A. A. THORNTON & CO.
Chartered Patent Agents
Napier House, 24-27 High Holborn
London, W.C.I.

PROVISIONAL SPECIFICATION

Improvents in or relating to Key Holders

I, ERNEST JOHN DROWN, of Graham Products, Ltd., 8 Key Hill Drive, Birmingham 18, do hereby declare this invention to be described in the following statement:—

Special (novelty) key ring, consisting of two parts. Part 1: The actual ring part, the ends of which are straight, sprung, capable of being pressed together, so that they run parallel to each other, the ends of each being widened to act as stoppers when inserted in part 2. The springiness is achieved through the key ring part which can be of any shape. Part 2: A box opened at two ends of a size suitable to take and compress the two ends of part 1, at the same time being narrow enough to prevent ends from slipping out. The box may be plain or ornamented, i.e. badges, crests or other ornaments may be attached.

E. J. DROWN

707,615 COMPLETE SPECIFICATION
1 SHEET This drawing is a reproduction of the Original on a reduced scale.

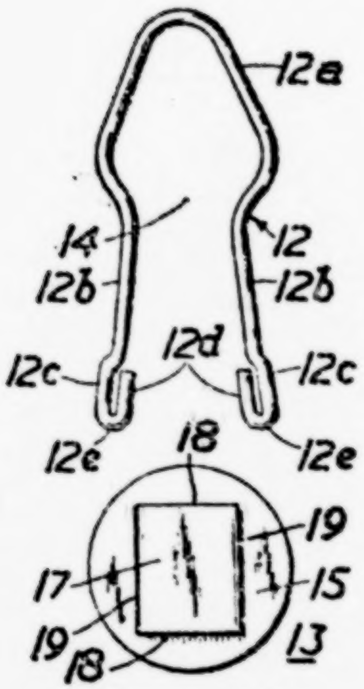

FIG. 1.

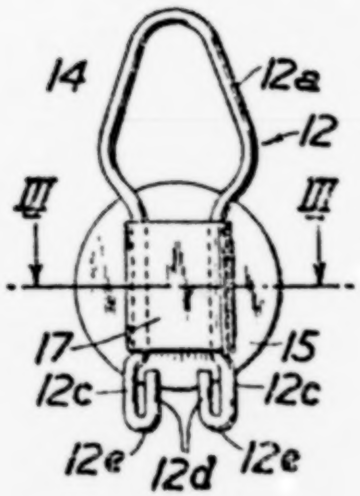

FIG. 2.

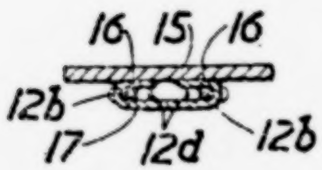

FIG. 3.

CERTIFICATE OF SERVICE

Edward S. Irons, a member of the Bar of this Court, hereby enters his appearance in this case as attorney for Ercon, Inc., *amicus curiae*, and certifies that the foregoing papers were today served by air mail, postage prepaid, on counsel for petitioner, and by hand on counsel for respondent, three copies to each of:

Mr. C. Lee Cook, Jr.
Chadwell, Kayser, Ruggles, McGee
& Hastings, Ltd.
8500 Sears Tower
233 South Wacker Drive
Chicago, Ill. 60606
Counsel for Petitioner

Mr. Erwin C. Griswold
Jones, Day, Reaves & Pogue
1100 Connecticut Ave., N.W.
Washington, D.C. 20036
Counsel for Respondent

Edward S. Irons

EDWARD S. IRONS

September 20, 1978